Indal Limited

14th Annual Report 1978

Indal Limited is a diversified North American industrial organization with 28 operating subsidiaries and divisions in Canada and 19 subsidiaries in the United States. Founded in 1964 as a small extruder of aluminum and producer of cold rollformed metal products, it now employs approximately 6,000 people at 58 Canadian and U.S. manufacturing and processing plants and 21 sales offices and warehouses.

Indal companies extrude aluminum, temper glass and produce a broad range of metal and wood products for the residential and non-residential construction and the home improvement and consumer markets. Other manufacturing and processing operations include the recycling of aluminum, the production of steel stampings and containers for the automotive industry and the fabricating of engineered aluminum products for government agencies and industrial customers. A metal trading company in Cleveland, Ohio is also part of the Indal Group.

The output of Indal's Canadian and U.S. plants is sold mainly to four markets: residential construction; home improvement and consumer; automotive; and agricultural, commercial and industrial construction. The major raw materials used are aluminum, lumber, steel, glass and zinc.

Approximately 56 percent of the common shares of Indal Limited are beneficially owned by R.T.Z. Industries Limited, London, England, which is 100 percent owned by The Rio Tinto-Zinc Corporation Limited, a world-wide mining and industrial organization. The balance of Indal's common shares, approximately 44 percent, are owned by individual and institutional investors in Canada and the United States.

Financial highlights

	1978	1977
Sales - manufacturing operations	**$363,328,000**	$212,150,000
Net earnings	**$ 16,126,000**	$ 10,007,000
Earnings per common share	**$ 2.25**	$ 1.60
Average number of common shares outstanding	**6,664,000**	6,226,000
Dividends per common share	**55¾¢**	49½¢
Common dividends paid	**$ 3,640,000**	$ 3,066,000
Cash flow from operations	**$ 28,473,000**	$ 18,919,000
Common shareholders' equity	**$107,557,000**	$ 58,300,000
Fixed assets	**$ 76,703,000**	$ 46,521,000
Working capital	**$ 96,191,000**	$ 36,579,000

Contents

Computer-controlled flow-through storage system in St. Joseph, Mo., plant of Peachtree Doors has tracked courier system and 5500 pallets to move up to 500,000 door products annually. Similar system was installed during 1978 in company's Atlanta, Ga., plant.

Corporate directory

Directors

*+ **DERMOT G. COUGHLAN**
President and Chief Executive Officer, Indal Limited, Toronto

DEREK EDWARDS
Chairman and Chief Executive, Pillar Aluminium Limited, London, England

JAMES R. HEWELL, JR.
President, Peachtree Doors, Inc., Atlanta

ROBERT B. LEESON
Chairman, Westland Metals Ltd., Vancouver

* **J. ROSS LeMESURIER**
Vice-President, Wood Gundy Limited, Toronto

*+ **DONALD J. McDONALD**
Company Director, Toronto

GEORGE H. MONTAGUE
Vice-President, TalCorp Associates Limited, Toronto

* **JAMES A. PATERSON**
Chairman and Chief Executive, R.T.Z. Industries Limited, London, England

+ **J. DEREK RILEY**
Company Director, Winnipeg

PETER G. SELLEY
Vice-President, Finance and Treasurer, Indal Limited, Toronto

* **WALTER E. STRACEY**
Chairman, Indal Limited, Toronto

Officers

WALTER E. STRACEY
Chairman

DERMOT G. COUGHLAN
President and Chief Executive Officer

J. NORMAN McKNIGHT
Executive Vice-President, Canadian Operations

PETER G. SELLEY
Vice-President, Finance and Treasurer

DOWNIE BROWN
Vice-President, Corporate Development/Operations

K. ANDERAS EGGEN
Vice-President, Operations

JOHN D. HILLERY
Vice-President, Corporate Counsel and Secretary

VINCENT J. HOWCROFT
Vice-President, Administration

JON N. LeHEUP
Vice-President, Operations

C. M. BROCK MASON
Vice-President, Operations

KERIN H. S. LLOYD
Group Executive, Manufacturing and Marketing Services

W. LYLE MUIR
Administrator, Risk Management and Employee Benefits

A. M. GORDON TURNBULL
Controller and Assistant Treasurer

Head office

4000 Weston Road, Weston, Ontario M9L 2W8

Auditors

COOPERS & LYBRAND
Chartered Accountants

Principal bankers

THE TORONTO-DOMINION BANK
CANADIAN IMPERIAL BANK OF COMMERCE

General counsel

BORDEN & ELLIOT, Toronto
ROGERS & WELLS, New York

Fiscal agents

WOOD GUNDY LIMITED, Toronto

Transfer agents and registrars

PREFERRED SHARES
INDAL LIMITED, Weston

COMMON SHARES
THE ROYAL TRUST COMPANY, Toronto, Montreal, Winnipeg, Calgary, Regina and Vancouver

* Member of the Executive Committee
+ Member of the Audit Committee

Report to the shareholders

Summary of the year

In every respect 1978 was a major year for your Group. Good progress was made in expanding and consolidating the base of operations and in significantly improving the financial position of your Company. Net earnings in 1978 increased to $16.1 million ($2.25 per share) compared with $10.0 million ($1.60 per share) in the previous year. Manufacturing sales were $363 million compared with $212 million in the previous twelve months.

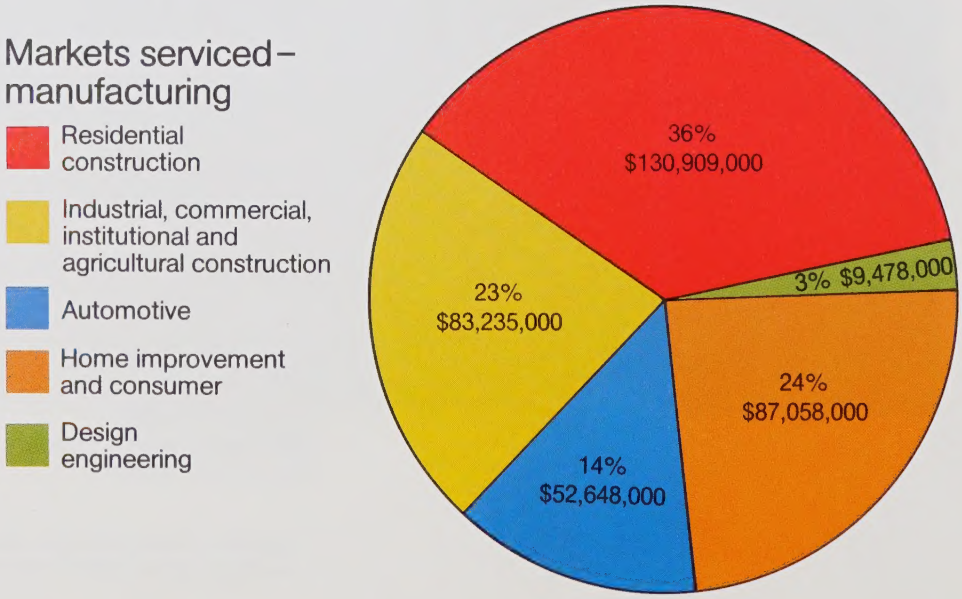
Economic conditions affecting Indal's markets in both Canada and the United States were slightly less buoyant than predicted a year ago in this report. The Canadian economy remained fairly weak with real growth during the year estimated at 3.1%. Canadian housing starts, still an important indicator to your Group, finished 1978 at approximately 227,000, somewhat down from the previous year. In some regions, particularly Alberta, business investment picked up towards the end of the year and stimulated demand for non-residential construction. Inflation in Canada remained a major problem and increases in interest rates and the drop in the value of the Canadian dollar precluded any material reduction in the rate of inflation.

Economic conditions in the United States showed, in general, a little more buoyancy than those in Canada. Real growth during the year was estimated at 3.9% and housing starts quite surprisingly finished the year strongly with close to 2 million starts despite earlier predictions of a slowdown. North American car and truck production in 1978 was also strong with close to 15 million units produced. Inflation was approximately 8½% and interest rates were at a high level. The U.S. dollar throughout the year was weak in relation to other hard currencies and U.S. government policy moved to one of fiscal restraint.

Overall Group profits before taxation were derived approximately 55% from Canadian based manufacturing operations and approximately 45% from U.S. operations. Exports to the United States in 1978 accounted for a further 15% of profits before tax.

One of the major reasons for the increase in sales and earnings was the effect of two major acquisitions made during 1978 in the United States. The initial acquisition of 70% of Peachtree Doors, Inc., Atlanta, Georgia, a corporation supplying a range of quality exterior doors with superior energy conserving features to construction and consumer markets, has proved to be a most successful addition to your Group and prospects for long-term growth are considerable. Later in the year the acquisition of 100% of Tennessee Building Products, Inc., Nashville, Tennessee, a group which manufactures and distributes a range of building products,

Markets serviced – manufacturing



has increased your Group's investment in the sun belt area of the United States. Other reasons for the growth in Group earnings in 1978 were continued buoyancy in Alberta construction markets and strength in the North American automotive industry. Design engineering operations returned to profitability and demand for high quality tempered glass for architectural markets continued to grow. At the end of the year Canadian non-residential construction, particularly related to agricultural markets, showed signs of an upturn and the two existing aluminum extrusion operations in the United States which sell products to a widely diversified customer base completed excellent years.

A number of new Group ventures came on stream during 1978. At the start of the year an operation manufacturing aluminum screen and security doors opened in Columbus, Ohio, and in Louisville, Kentucky, another newly formed Group subsidiary came on stream at the end of the year manufacturing a range of expanded aluminum mesh which forms one of the basic components of the above security door and which also has many potential industrial uses. By the end of 1978 construction of a new glass tempering plant in Atlanta, Georgia, was almost complete and production is anticipated early in 1979. Also at the end of the year a new wood window plant in Airdrie, Alberta, started production.

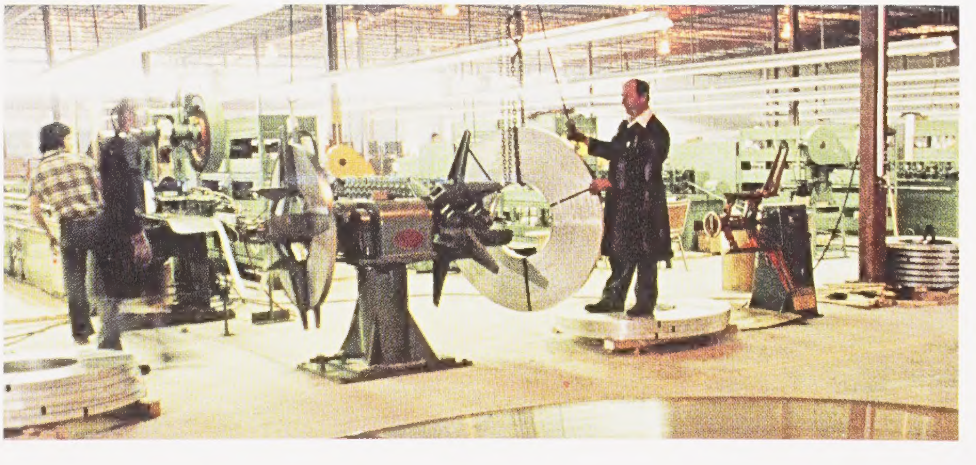
Financial

Two major financings which considerably improved the financial position of your Company were completed in 1978. In March, the issue of $25 million of floating rate preferred shares was completed and the proceeds used largely to finance the acquisition of Peachtree Doors, Inc. In December the issue of 3 million common shares raised net proceeds of approximately $37 million which were used mainly to reduce bank debt. This considerably improved the equity base of your Company and enhances the ability to finance the ongoing expansion and acquisition program in North America.

Net working capital at the end of 1978 was $96.2 million compared to $36.6 million in the previous year. During the year $20.2 million was spent on fixed asset additions, $40.7 million on the acquisition of new businesses and $8.9 million on the purchase of minority interests in a number of subsidiary companies.

In November the quarterly common share dividend was increased to $0.17½ per common share from $0.12¾ to more appropriately reflect current earnings levels.

A non-taxable favourable adjustment of $2.3 million was made during the year on the conversion to Canadian dollars of U.S. current assets and current liabilities. The average tax rate for the Group overall in 1978 was 40.8%, slightly higher than the previous year. An increase in taxes due to higher U.S. rates of taxation was somewhat offset by the non-taxable exchange adjustment mentioned above.



New plant of Custom Rollforming, Toronto, houses 16 cold rollforming mills to shape steel and aluminum products for other group companies and outside customers. Products include spacers for insulating glass units, electrical conduits and furniture trim.

Canadian destroyer uses Beartrap haul-down and recovery system to land anti-submarine helicopter on flight deck. DAF Indal, Mississauga, Ont., which has exclusive world-wide manufacturing rights to the system, has produced modified versions for the Japanese, Indian and Argentinian navies and prototypes of new versions for the U.S. Navy.

Board changes

It is recorded with great regret that Mr. W. R. Tuer, Q.C., a partner of Borden & Elliot and a member of the Board of Directors, died suddenly in January 1979. Mr. Tuer was a Board member of Indal since 1965 and during that period made a major contribution to the success of your Company. Deepest sympathy is extended to all members of his family.

Mr. J. R. Hewell, Jr., President of Peachtree Doors, Inc., was elected to the Board of Directors of the Company in April 1978.

Senior officers & management

A number of senior Group appointments and changes were effected over the last year.

Mr. D. G. Coughlan, formerly President & Chief Operating Officer, was elected President & Chief Executive Officer of the Company. Mr. W. E. Stracey, formerly Chairman & Chief Executive Officer, continues as Chairman of the Board.

Mr. J. N. McKnight, formerly Vice-President, Operations, was appointed to the newly created position of Executive Vice-President, Canadian Operations.

Mr. J. N. LeHeup, C.A., Executive Vice-President, McKnight Window Industries Limited, was appointed Vice-President, Operations, Indal Limited. Mr. I. R. Moore, Vice-President, Operations, Indal Limited, will relinquish this position on April 1, 1979 and take up the appointment of President & Chief Executive Officer, Tempglass Limited, Toronto.

Other corporate office appointments during the year were Mr. D. Brown, C.A. (Scotland), as Vice-President, Corporate Development in addition to his responsibilities as Vice-President, Operations. Mr. A. M. G. Turnbull, M.A., LL.B., C.A., was appointed Controller and Assistant Treasurer replacing Mr. B. P. Morine who returned to his family business in New Zealand.

The operating management of the Company was further strengthened in 1978 as expansion brought five new senior operating managers into the Group.

The calibre of the corporate and operating management of your Company, strengthened by the above appointments and by internal training and promotion, ensures the effective management of the growing assets of the Group. The considerable number of separate Group subsidiaries has led to the establishment of a corporate structure which includes five Vice-Presidents of Operations who are responsible, on a divisional basis, for the operations of the Group. Financial and budgetary controls continue to form an integral part of the Group's management process.

Outlook

The economic and business prospects in both Canada and the United States, although differing considerably between your Group's various industries, are overall not particularly encouraging. The United States, in an effort to avoid a further serious increase in inflation and interest rates, is entering a period of restraint and in Canada a federal election due by the summer can only add to economic uncertainty.

In Canada the 1979 forecast of real growth in the economy is around 3%, very close to that achieved in 1978 and housing starts are forecast to be in the 220,000 range, slightly less than in 1978. One positive indicator appears to be business investment which, it is predicted, will increase by 5% in real terms after several years of stagnation. The

termination of AIB controls as well as strong oil and gas exploration may encourage business capital spending plans. A modest increase — 3% in real terms — is predicted for consumer spending, while interest rates are expected to maintain their present high level for some months and then begin to fall.

In the United States real growth is now forecast to be as low as 2½%, considerably less than the estimated 3.9% in the previous year. Housing starts will probably be in the 1.6 to 1.8 million range, down from the estimated 2 million achieved in the previous year. Inflation is predicted to be in the region of 8% and unemployment to be in the 6% - 7% range. Forecasts for 1979 North American automotive production range from a high level as in 1978 to a reasonably significant downturn. However, at the present time indications are for another good year in car and truck production. The above indicators, although overall not particularly good, do not yet reflect the U.S. recession that has been forecast by many economists.

Listed below are a number of reasons why, despite the rather indifferent economic outlook in both Canada and the United States, your Group should achieve improved earnings and further develop its program of growth.

The expansion program carried out in both Canada and the United States has increased to a considerable degree your Group's base of investment in the different geographic and industrial markets. There are now 45 separate profit centres located in most regions of North America employing approximately 6,000 people and the diversification achieved provides good protection against all but a broadly based recession.

The results of the two acquisitions completed in 1978 were included in earnings for only part of 1978 and will make a full year's contribution in 1979. Besides producing and marketing building products for new U.S. housing, which may be depressed in 1979, both of these operations manufacture home improvement and consumer products with superior energy conserving qualities for which strong demand may be expected to continue. Also, the continued relative buoyancy in North American automotive markets should again assist the earnings of your Group's automotive parts operation which will further expand its productive capacity in 1979.

The increases in the list and free market prices of aluminum in the last few weeks have created a strong demand for primary aluminum. Your Group's metal trading activities which were relatively soft during 1978 are now encountering more buoyant market conditions with opportunities for both improved volume and margins and it is anticipated that considerably improved earnings will be achieved from this area of Group activities during 1979. Some Group operations which produced unsatisfactory earnings in 1978 are anticipated to make an improved contribution in 1979. These include replacement window operations in the eastern United States where management has been changed and product demand is strong. Design engineering activities based in Canada anticipate continued growth in earnings supported by exports of defense-oriented products. Canadian extrusion markets showed increased demand at the end of 1978 which should benefit the Group division supplying those markets.

The 1979 plans of your Group call for capital expenditures of approximately $26 million on existing operations and new ventures, excluding acquisitions. These expansions include a new glass tempering plant in Grand Prairie, Texas, as part of the regional tempering program in the United States. A second tempering furnace is planned for the

Toledo, Ohio, operation and a new tempering plant based in Atlanta, Georgia, will be operational by spring 1979.

It is planned also to increase the productive capacity of extrusion operations based in California and to complete a number of smaller expansions to existing Canadian businesses. All of the above expansions and new ventures will progressively enhance earnings.

These factors indicate the areas of strength for your Group. Conversely, Group results in 1979 may reflect exchange losses concurrent with a possible improvement in the value of the Canadian dollar. It is also anticipated that corporate tax rates will be higher as a result of this development and the write-off of additional goodwill created in 1978. The probable weakening in U.S. residential construction starts has been mentioned above and any major fall in starts will adversely affect those Group operations serving that market.

The Group's five year planning process is again being developed in all subsidiary operations and reveals a considerable number of opportunities to build on the base that has been established in various parts of North America. Your Group's sales in the United States, as a result of its 1978 acquisitions, are now almost 50% dependent on residential construction. In view of the cyclical nature of this particular market, it is considered prudent to achieve some measure of further diversification in your Group's activities in order to lessen this dependence. A number of possibilities to achieve this exist and your Group has the financial capacity to consider further investment opportunities.

At the end of 1978 your Group had competent and experienced management, a sound financial position and strong diversified operating subsidiaries throughout North America. Although the outlook for 1979 suggests many difficulties, it is believed your Group has the innovative talent and basic operating strength to continue its growth.

We would once again like to express our sincere appreciation to all those employees whose dedication and enthusiasm contributed so much to the record results achieved in 1978.

Walter E. Stracey
Chairman of the Board

Dermot G. Coughlan
President & Chief
Executive Officer

Manufacturing sales by products

Corporate changes

During the year your Company made two major acquisitions in the United States, established several new businesses, expanded a number of plant facilities and increased its majority interest in several subsidiaries.

An initial 70% equity interest in Peachtree Doors, Inc., Atlanta, Georgia, a manufacturer of residential steel entrance doors and patio doors, was acquired in March and a 100% equity interest in Tennessee Building Products, Inc., Nashville, Tennessee, a fabricator and supplier of doors, windows and other building components, was acquired in August.

Two additional glass tempering companies — Tempglass Eastern, Inc., Atlanta, 95% owned and Tempglass Southern, Inc., Grand Prairie, Texas, 92½% owned — were formed during the year. It is anticipated that Tempglass Eastern and Tempglass Southern will commence operations in April and September of 1979 respectively.

Three new ventures came on stream in 1978. These were Indal Fabricators Inc., Louisville, Kentucky, a 90% owned manufacturer of expanded aluminum metal products, a Columbus, Ohio division of Empire Metal Products Corporation, Los Angeles, a manufacturer of aluminum fabricated products, and the Westwood Window Division of Indal Limited, Airdrie, Alberta, a producer of wood window units. Therma-Tru Limited, Toronto, changed its name to Peachtree Doors Canada Ltd.

During the year, your Group acquired an additional 4% equity interest in Empire Metal Products Corporation; an additional 6.25% equity interest in Peachtree Doors Canada Ltd.; an additional 1.2% equity interest in SealRite Windows, Inc.; the remaining 20% equity interest in Fabricated Steel Products (Windsor) Limited; the remaining 15% equity interest in Replacement Products Industries Corporation, and the remaining 25% equity interest in Rio Indal, Inc. Your Company sold during the year a 5% equity interest in Better-Bilt Aluminum Products Co., formerly a wholly-owned subsidiary of Tennessee Building Products, Inc. In early 1979 an additional 4% equity interest in Peachtree Doors, Inc. was acquired.

Production line for interior doors at plant of Tennessee Building Products, Nashville, Tenn., one of the largest distributors of building products in the southern United States. Besides manufacturing its own doors and windows, the company distributes building products made by some 30 other U.S. manufacturers.

Review of markets and operations

Residential construction

Airlite Glass Insulating
Alamo Aluminum
Alumiprime Division
Hialco Mfg. Division
Kabinart
McKnight Window Industries
Peachtree Doors Canada
Peachtree Doors Inc.
SealRite Windows
Tennessee Building Products
Tennessee Glass
Western Aluminum Products
Calgary Division
Winnipeg Division
Westwood Windows
Windowmaster Products

Group operations serving the residential construction markets in North America were broadened and strengthened during 1978 by the acquisition of a major U.S. manufacturer of insulated entry doors and a regional distributor of building products.

As a result of these acquisitions Indal emerged as a more significant force throughout North America in the growing market for energy conserving building products. The Group's Canadian operation manufacturing insulated entry doors has already derived significant benefit from its association with its U.S. counterpart, and it is expected that further benefits will accrue to the Group as a whole.

Housing starts, the indicator of national residential construction activity dropped by 8% in Canada to 227,000 and in the U.S. maintained the buoyant level of 2 million achieved in 1977. Western Canada, excluding British Columbia, once again proved to be an extremely active market whereas the market in Ontario weakened. Nonetheless, the Group operations in Ontario producing wood windows for single family homes, and aluminum prime windows for apartment buildings achieved good results. In the United States, despite bad weather in the early part of the year the operations in Lincoln, Nebraska, and Santa Clara, California, both made a strong recovery and finished the year with satisfactory performances. During the year, the Lincoln company closed its cut stock lumber plant in Spokane, and moved part of the operation to its expanded facility in Lincoln.

In Alberta, construction of a plant has recently been completed for a new Indal venture which will manufacture high quality awning and casement windows, products previously imported from the U.S. These wood windows, together with milled components will be sold throughout Canada, representing a major move in Indal's strategy to establish national coverage in the wood window market.

The future outlook for residential construction shows some weakening in 1979 with housing starts dropping by about 15% in the U.S., and remaining depressed in Canada, but the regional diversification of your Group, and the energy related features of its products will tend to soften the impact of an economic downturn.

Home improvement and consumer products

Better-Bilt Aluminum Products
Empire Metal Products
Fashion Grilles Division
Indal Products
Rebmec Division
Lite Metals Division
Maritime Division
Replacement Products Industries

The acquisition of a large U.S. manufacturer of aluminum doors and windows, located in Nashville, Tennessee, and the opening in Columbus, Ohio, of a new Group operation for the production of packaged weather stripping, aluminum screen doors and a new storm security door were noteworthy developments in 1978. The year also saw the completion in Amherst, Nova Scotia, of a new Group plant for the fabrication of aluminum storm doors and windows.

The profitability of the Nashville operation exceeded expectations but the Columbus operation experienced start-up difficulties which delayed production of the security door, currently being test-marketed by a leading U.S. chain store.

Consumer interest in energy conservation products and government incentives for their purchase paved the way for the expansion in Nova Scotia and benefited other Group operations producing home improvement products in Canada and the U.S.

In Toronto the Group enjoyed the benefits of some recovery of business lost during the lengthy 1977 strike at the operation fabricating storm doors and windows, and a return to a more reasonable competitive environment in the ladder industry.

An especially difficult year was experienced by two U.S. operations although it is confidently expected that corrective action taken will be effective. In Philadelphia, where aluminum windows for the replacement market are manufactured, new management were appointed to rectify deficiencies in control and product design. In Los Angeles, the company producing screen doors and weatherstripping experienced labour interruptions.

In Brampton, Ontario, the company producing trailer components, patio doors and mirror and tub doors achieved positive results in difficult conditions. A decision has been made to reduce the scale of operations in 1979 and merge its activities with other Indal companies in Toronto and Calgary.

During the year, the Group's fibreglass boat distributor in Thornhill, Ontario was closed, completing the phase-out of Indal's Marine Division, an activity which, as a result of the decline in consumer spending, had been only marginally profitable.

Aluminum extrusions and recycling

Indalex Division
Indalloy Division
Mideast Aluminum Industries
Royal Aluminum

In Canada, where the recession in the industrial sector continued, Indal's extruding plants in Montreal, Calgary, Toronto and Vancouver increased sales by an overall 12 per cent and partially offset higher aluminum costs by increases in operating efficiencies and improved cost controls.

Sales of extrusions were increased by the penetration of new markets including transportation and the continued success of balcony railing and patio furniture introduced in 1977.

The Group's aluminum extrusion activity in the northeastern United States experienced a year of unprecedented growth. Several competitors ceased operations and your company took the opportunity to broaden its customer base and diversify its product range, which resulted in a performance in excess of expectations.

In California, the Group's extruding company completed a satisfactory year despite a weak economy and strong competition. This performance was due largely to increased penetration of the operation's existing markets and to the development of new markets for proprietary products including carpet trim and swimming pool accessories.

Though substantial improvements were achieved in plant operations, 1978 was a difficult year for your Group's aluminum recycling operation. Demand for secondary billet was significantly below budget in the first half of the year as a result of excess metal inventory in the Group's Canadian extrusion operations. During the second half, demand from all quarters improved and, later in the period, prices began a firming trend which is expected to continue into 1979. An enclosed storage facility was completed during the year and, in the last quarter, the operation began construction of a second melter to be brought on stream in April, 1979.

Non-residential construction

Commercial Aluminum Division
Commercial Aluminum (Western)
Dominion Bronze
Eastland Metals
Westland Metals

Group companies producing cold rollformed metal siding for the industrial and agricultural markets enjoyed a much improved year. In western Canada, although Vancouver did not show any dramatic upsurge in activity, operations in Edmonton and Calgary benefited from a high demand for agricultural buildings and grain bins required to handle an excellent wheat crop.

The agricultural sector benefited the Group's Toronto company which in the last quarter of the year also showed signs of a recovery in industrial business, a market which has been depressed for several years. The outlook for this aspect of the Group's activities is more promising now than it has been for some time.

Group operations producing entrance systems, curtain walls and commercial and industrial windows had a satisfactory year despite adverse market conditions. The Winnipeg based operation completed the installation of curtain wall for the third tower of the Edmonton Centre, opened an office in Vancouver and launched an aggressive sales programme in the mid-western United States. The 1979 order backlog is excellent, and the company is well positioned for further growth.

Automotive

Fabricated Steel Products
Fairmont Plating (Alta)
Fairmont Plating (Man)

1978 was another good year for your Group's automotive products subsidiary in Windsor, Ontario, as unit production by North America's car and truck industry exceeded the 1977 record by 1.6 per cent. Sales of the Windsor company increased over those of the previous year but results were affected by overtime costs and sub-contracted production pending completion in the last quarter of a $5.5 million expansion programme.

The major North American auto manufacturers are expecting 1979 to be another strong year and most are scheduling more model changes as part of the trend to smaller cars. The 1978 performance is expected to improve in 1979 through greater efficiency, increased penetration of the stamping market and by an ability to supply more of the strong demand for fabricated products. To this end, a further $3.5 million has recently been committed to the purchase of new equipment.

The Group's bumper recycling operation based in Edmonton also benefited from the record level of automobile production. Because of the high demand for new vehicles, auto manufacturers cut back on replacement parts production and created a larger demand for recycled bumpers. Your company also increased its industrial plating sales.

Design engineering

DAF Indal

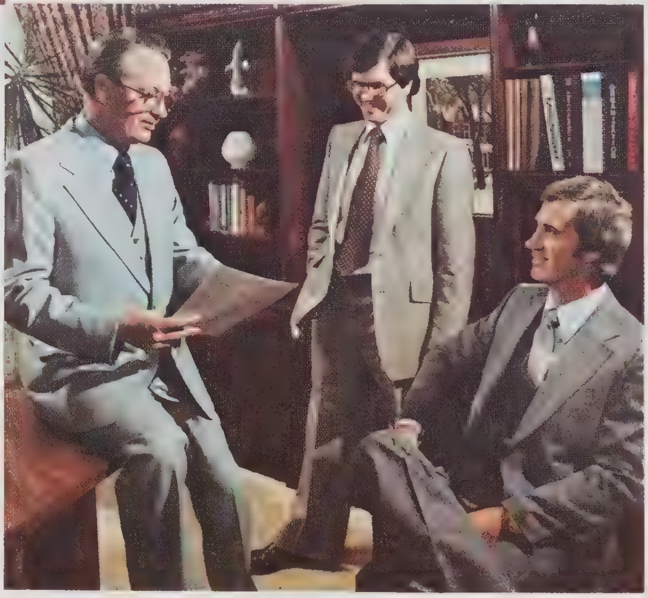
The year saw a welcome turnaround in the performance of the Group's Mississauga, Ontario subsidiary that fabricates engineered aluminum products. The company's profitability was at a satisfactory level and at the start of 1979 it had the largest order backlog in its history.

The management of the subsidiary was strengthened during the year and production and marketing activities were concentrated on Jutland buildings, helicopter hauldown and recovery systems, airport lighting equipment and wind turbines. The company's success in promoting its hauldown systems and helicopter hangars produced orders during the year from Japan, the United Kingdom, Europe and South America as well as from the U.S. and Canadian navies.

Corporate management

Top photo, left to right:
K. Anderas Eggen, Vice-President, Operations; J. Norman McKnight, Executive Vice-President, Canadian Operations; Jon N. LeHeup, Vice-President, Operations; C. M. Brock Mason, Vice-President, Operations.

Middle photo, left to right:
Kerin H. S. Lloyd, Group Executive, Manufacturing and Marketing Services; A. M. Gordon Turnbull, Controller and Assistant Treasurer; Downie Brown, Vice-President, Corporate Development/Operations; Peter G. Selley, Vice-President, Finance and Treasurer.



Bottom photo, left to right:
W. Lyle Muir, Administrator, Risk Management and Employee Benefits; John D. Hillery, Vice-President, Corporate Counsel and Secretary; Vincent J. Howcroft, Vice-President, Administration.

Tempered glass

Tempglass Eastern
Tempglass Inc.
Tempglass Limited
Tempglass Southern
Tempglass Western

The custom tempering of large sheets of glass for the architectural and insulating glass market continues to be one of the most successful and fastest growing aspects of your Group's operations. During 1978, a third U.S. glass tempering plant was constructed in Atlanta, Georgia, for operation beginning early in 1979, and in Grand Prairie, Texas, a site was purchased for a fourth U.S. glass tempering plant.

All Group glass tempering operations enjoyed a successful year as demand for high quality architectural glass remained strong throughout the period. In Toledo, the operation achieved full production and plans a second horizontal roller-hearth furnace in 1979. In California, the Fremont company completed a very successful first full year of operation. The Toronto operation which also tempers commodity sized sheets of glass for glazed building products achieved improved results despite an absence of any improvement in the residential and non-residential construction markets. Penetration of several new markets and processing of heavy sheets of architectural glass for such specialty applications as the back walls of squash courts increased.

Metal trading

Rio Indal

A strong fourth quarter enabled your Group's metal trading operation to reverse the trend of the previous nine months and end the year profitably. Very low trading levels and poor margins characterized operations during the first half of 1978. This was caused by the severe winter and differing list prices among the prime producers which produced buyer indecision. Metal shortages developed in the third and last quarters and caused an increase in the market price.

Other activities

Aluminum Processes
Custom Rollforming
Custom Zinc Die Casting
Indal Fabricators
North American Die Casting
RAM Partitions

The custom rollforming operation in Toronto achieved record results during 1978 and, in July, made plans to move early in 1979 to a new plant providing 100 per cent more manufacturing space.

In Fredericksburg, Virginia, the zinc die casting operation, a leading supplier of hardware for the U.S. door and window industry, obtained new industrial accounts as it continued a programme of product diversification begun in 1977. Zinc die castings from this operation are now going into kitchen appliances, electric motors, ventilation equipment and telephone sets.

The Toronto subsidiary producing demountable office walls and panel systems increased its sales volume in 1978 but gross margins were eroded by severe competition in a limited market. Future profit increases will be derived from the introduction of new components for the company's office panel systems.

A new Indal operation established to produce aluminum mesh and grid for industrial and consumer product applications came on stream in Louisville, Kentucky, in the second half of the year and is expected to contribute to the Group's performance in 1979.

More than 6,000 men and women are employed by Indal and its subsidiaries at 79 locations in Canada and the United States. Photos show some of these people at work in plants and offices.

Consolidated statement of earnings and retained earnings for the years ended December 31

	(in thousands of dollars) 1978	1977
Earnings		
Sales from manufacturing operations (note 3)	**$363,328**	$212,150
Cost of manufacturing sales	**270,783**	157,119
Gross profit from manufacturing operations	**92,545**	55,031
Gross profit from metal trading (note 3)	**2,263**	3,681
	94,808	58,712
Expenses	**65,900**	40,003
Selling and distribution	**31,106**	17,136
Administration	**25,795**	17,439
Financial	**8,999**	5,428
	28,908	18,709
Other income/(expenses)	**(822)**	(138)
Exchange adjustment on current assets and current liabilities (note 1)	**2,302**	708
Earnings before income taxes (note 4)	**30,388**	19,279
Income taxes (note 5)	**12,406**	7,838
Earnings after income taxes and before minority shareholders' interest	**17,982**	11,441
Minority shareholders' interest	**1,856**	1,434
Net earnings	**$ 16,126**	$ 10,007
Earnings per common share		
Basic	**$ 2.25**	$ 1.60
Fully diluted (note 6)	**$ 2.21**	$ 1.55

	1978	1977
Retained earnings		
Balance - beginning of year	**$ 31,394**	$ 24,521
Net earnings	**16,126**	10,007
	47,520	34,528
Dividends paid		
Preferred shares	**1,101**	68
Common shares	**3,640**	3,066
Share issue expenses, net of tax	**934**	—
	5,675	3,134
Balance - end of year	**$ 41,845**	$ 31,394

Indal Limited

Consolidated balance sheet as at December 31

Assets

	(in thousands of dollars) 1978	1977
Current assets		
Cash	**$ 8,403**	$ —
Accounts receivable -		
Manufacturing	**62,251**	34,665
Metal trading	**27,868**	38,455
Inventories (note 7)	**69,867**	53,372
Other accounts receivable and prepaid expenses	**5,772**	3,496
	174,161	129,988
Fixed assets - at cost		
Land	**6,188**	4,219
Buildings	**29,342**	18,880
Machinery and equipment	**49,174**	30,648
Leasehold improvements	**4,219**	2,620
Office furniture and equipment	**3,742**	2,269
Motor vehicles	**5,390**	4,054
	98,055	62,690
Accumulated depreciation	**23,565**	17,919
	74,490	44,771
Tools and dies - at cost, less amortization	**2,213**	1,750
	76,703	46,521
Intangible assets		
Goodwill (note 8)	**33,970**	14,044
Deferred charges, less amortization (note 9)	**501**	1,034
	34,471	15,078
	$285,335	$191,587

Signed on behalf of the Board

D. G. Coughlan, Director

P. G. Selley, Director

Liabilities

	(in thousands of dollars) 1978	1977
Current liabilities		
Bank advances (note 10)	$ 6,073	$ 21,629
Accounts payable -		
Manufacturing	21,838	16,030
Metal trading	23,542	37,363
Other accounts payable and accrued charges	14,307	10,726
Income and other taxes payable	2,959	4,142
Deferred income taxes relating to current assets	942	1,058
Current portion of long-term liabilities (note 11)	8,309	2,461
	77,970	93,409
Long-term liabilities less current portion (note 11)	56,742	25,507
Deferred income taxes	10,096	7,346
Minority shareholders' interest in subsidiary companies	7,970	5,942
	152,778	132,204

Shareholders' equity

Capital stock (note 12)

Authorized -

158,334 cumulative preferred shares of the par value of $10 each, issuable in series (at December 31, 1977 only)

2,000,000 preferred shares of the par value of $25 each, issuable in series (at December 31, 1978 only)

10,000,000 common shares without nominal or par value

	1978	1977
Issued and fully paid -		
108,334 6% Series A and Series B cumulative preferred shares (redeemed on March 3, 1978)	—	1,083
1,000,000 floating rate preferred shares Series A	25,000	—
9,558,688 (December 31, 1977 — 6,464,412) common shares	65,712	26,906
Retained earnings	41,845	31,394
	132,557	59,383
	$285,335	$191,587

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Indal Limited as at December 31, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
February 8, 1979

Coopers & Lybrand
Chartered Accountants

Indal Limited

Consolidated statement of changes in financial position for the years ended December 31

	1978	1977
	(in thousands of dollars)	
Source of funds		
Operations -		
Earnings before minority shareholders' interest	$ 17,982	$ 11,441
Items not affecting funds -		
Depreciation and amortization	8,915	6,256
Deferred income taxes	847	1,082
Amortization of goodwill	729	140
	28,473	18,919
Proceeds from sale of fixed assets	1,369	250
Issue of long-term liabilities	33,191	5,439
Issue of floating rate preferred shares	25,000	—
Issue of common shares - treasury issue	38,250	—
- exercise of stock options	556	278
- conversion of debentures	—	1,870
Investment by minority shareholders	41	485
Other	193	(11)
Total source of funds	127,073	27,230
Application of funds		
Purchase of fixed assets	20,200	10,638
Acquisition of businesses (note 2)	40,716	3,746
Less: Working capital acquired	(21,753)	(1,387)
Purchase of additional equity in subsidiaries (note 2)	8,857	1,637
Less: Provision for goodwill - Rio Indal, Inc. (note 8)	(2,000)	—
Dividends - preferred shares	1,101	68
- common shares	3,640	3,066
Dividends to minority shareholders in subsidiary companies	503	328
Redemption of preferred shares	1,117	65
Retirement of long-term liabilities and change in current portion	14,050	7,439
Additions to deferred charges	96	203
Share issue expenses, net of tax	934	—
Total application of funds	67,461	25,803
INCREASE IN WORKING CAPITAL	$ 59,612	$ 1,427
Changes in elements of working capital		
WORKING CAPITAL - BEGINNING OF YEAR	$ 36,579	$ 35,152
Current assets - increase		
Cash	8,403	—
Accounts receivable and prepaid expenses	19,275	18,232
Inventories	16,495	9,222
	44,173	27,454
Current liabilities - (increase)/decrease		
Bank advances and current portion of long-term liabilities	9,708	(329)
Accounts payable and accrued charges	4,432	(25,998)
Income and other taxes payable	1,299	300
	15,439	(26,027)
NET INCREASE IN WORKING CAPITAL	59,612	1,427
WORKING CAPITAL - END OF YEAR	$ 96,191	$ 36,579

Notes to consolidated financial statements for the year ended December 31, 1978

1. Accounting policies

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all subsidiaries. All material inter-company items and transactions are eliminated on consolidation.

Translation of foreign currency

Assets and liabilities in U.S. funds are translated to Canadian dollars at the rate of exchange in effect at the year-end. Income and expenses in U.S. funds are translated to Canadian dollars at a rate approximating the average rate of exchange during the year. The exchange adjustments on current assets and current liabilities, amounting to $2,302,000 (1977 — $708,000) and on income and expenses, amounting to $316,000 (1977 — $75,000) are taken into income. The exchange adjustments on other assets and liabilities are deferred.

Inventories

Raw material inventories are valued at the lower of cost and replacement cost and other inventories are valued at the lower of cost and net realizable value. Cost is generally determined on a first-in, first-out basis.

Fixed assets

Fixed assets, including expenditures which improve or prolong the useful lives of the assets, are stated at cost at time of acquisition.
Depreciation is computed on a straight-line basis at rates based on the estimated useful lives of these assets. The estimated useful lives range from twenty to forty years for buildings, eight to ten years for machinery and equipment, seven to ten years for office furniture and equipment, three to four years for motor vehicles and two to ten years for tools and dies. Leasehold improvements are amortized over the terms of the leases. Maintenance and repair costs of a routine nature are charged to earnings as incurred.

Goodwill

Goodwill resulting from acquisitions or agreements entered into prior to January 1, 1974 is not amortized. Goodwill resulting from acquisitions subsequent to January 1, 1974 is amortized on a straight-line basis, over its estimated life, or forty years, whichever is the lesser.

Deferred charges

Preproduction costs are amortized over one to five years. New product development costs are charged to earnings in the period in which they are incurred.

Debenture issue expenses are amortized over the terms of the debentures. Patents and licences are amortized over their estimated useful lives.

Income taxes

The deferral method is used in accounting for income taxes. Timing differences giving rise to deferred income taxes relate primarily to:

Depreciation and amortization — where the cumulative amounts claimed for tax purposes and written off for accounting purposes differ.

Accounts receivable holdbacks — which are not taxed until actually released.

Prepaid expenses and deferred charges — which are claimed for tax purposes when incurred.

Pension plan

The Company accounts for current pension costs on an accrual basis. Past service costs are insignificant.

Earnings per share

Earnings per share are calculated using the weighted average number of shares outstanding during the year.

2. Acquisitions

(a) On March 1, 1978 the Company acquired 70% of the issued share capital of Peachtree Doors, Inc. ("Peachtree Inc."), a manufacturer of residential steel entrance doors and patio doors, located in Atlanta, Georgia and St. Joseph, Missouri. The results of operations of Peachtree Inc. are reflected in the consolidated statement of earnings from March 1, 1978. The total consideration, represented by cash payments, amounted to $24,636,000.

On August 1, 1978 the Company acquired 100% of the issued share capital of Tennessee Building Products, Inc., 95% of the issued share capital of Better-Bilt Aluminum Products Co., 100% of the issued share capital of Kabinart Corporation and 100% of the issued share capital of Tennessee Glass Company. These companies ("Tennessee Group") are manufacturers of aluminum patio and storm doors, aluminum prime and storm windows and aluminum, wood and other building products, and are located in Nashville, Chattanooga and Knoxville, Tennessee. The consideration for these companies totalled $16,080,000 of which $118,000 was paid in cash on acquisition and the balance is payable by a 7% note repayable in instalments as follows: $2,014,000 on January 2, 1979 and four equal annual instalments of $3,487,000 commencing January 2, 1980.

The consideration for these acquisitions, which have been accounted for by the purchase method, has been allocated as follows:

	Peachtree Inc.	Tennessee Group
Current assets, at assigned costs	$14,194,000	$20,933,000
Fixed assets, at assigned costs	11,465,000	7,168,000
Current liabilities, at assigned costs	(3,045,000)	(10,329,000)
Long-term liabilities, at assigned costs	(7,366,000)	(4,027,000)
Other liabilities, at assigned costs	(1,367,000)	(248,000)
Minority shareholders' interest	(3,536,000)	(68,000)
Goodwill	14,291,000	2,651,000
Total consideration	$24,636,000	$16,080,000

(b) During 1978 the Company acquired the remaining equity of the following subsidiary companies: Fabricated Steel Products (Windsor) Limited (20%), Rio Indal, Inc. (25%) and Replacement Products Industries Corporation (15%). The Company also increased its equity in Peachtree Doors Canada Ltd. (formerly Therma-Tru Limited) by 6.25%, in Empire Metal Products Corporation by 4%, and in SealRite Windows, Inc. by 1.2%. Cash consideration for the above purchases totalled $8,857,000.

3. Sales

Sales by major categories were:

	1978	1977
Doors, windows, ladders, mobile home components and hardware	$177,616,000	$ 76,376,000
Aluminum extrusions and surface finishings	65,227,000	45,743,000
Commercial and institutional architectural products	13,446,000	10,600,000
Glass	23,330,000	12,321,000
Rollforming	21,820,000	18,450,000
Automotive	51,630,000	41,935,000
Design engineering	9,478,000	5,313,000
Other activities	781,000	1,412,000
Manufacturing sales	$363,328,000	$212,150,000
Metal trading sales	161,322,000	226,176,000
TOTAL SALES	$524,650,000	$438,326,000

4. Earnings before income taxes

Earnings before income taxes are stated after charging:

	1978	1977
Depreciation and amortization	$ 8,915,000	$ 6,256,000
Amortization of goodwill	729,000	140,000
Interest on bank advances	3,563,000	2,706,000
Interest on long-term liabilities	4,600,000	2,473,000
Rent on leased premises	2,413,000	1,638,000
Remuneration of directors and senior officers:		
(i) During the year the Company had 12 directors (12 in 1977) and 13 officers (14 in 1977), of whom 3 were also directors. 5 directors and 7 officers (6 directors and 10 officers in 1977) were also officers of subsidiaries.		
(ii) Aggregate remuneration as directors amounted to	40,000	26,000
(iii) Aggregate remuneration paid by the Company and its subsidiaries to officers amounted to:		
(a) Indal Limited	970,000	1,012,000
(b) Subsidiaries	581,000	383,000

5. Income taxes

Income taxes based on the earnings for the year are made up of:

	1978	1977
Income taxes payable	$ 11,559,000	$ 6,558,000
Deferred income taxes	847,000	1,280,000
	$ 12,406,000	$ 7,838,000

6. Dilution of earnings per common share

Fully diluted earnings per common share based on the exercise of stock options would be $2.21 per share, assuming that the potential proceeds of $1,211,000 on exercise of stock options would yield income at an interest rate of 9½%.

7. Inventories

	1978	1977
Raw materials	**$ 46,537,000**	$ 40,966,000
Work in process	**7,867,000**	4,246,000
Finished goods	**15,463,000**	8,160,000
	$ 69,867,000	$ 53,372,000

8. Goodwill

Goodwill resulting from acquisitions or agreements entered into prior to January 1, 1974 (with the exception of Rio Indal, Inc., in respect of which details are set out below) is not amortized. At December 31, 1977 such goodwill amounted to $11,590,000. During 1978, the Company acquired additional equity in these subsidiaries giving rise to additional goodwill of $2,722,000. At December 31, 1978, total goodwill not being amortized amounted to $14,312,000.

In 1973 the Company acquired 75% of the share capital of Rio Indal, Inc., (a metal trading company) as a result of which goodwill of $600,000 arose. That goodwill is being written off over seven years. At December 31, 1977 the unamortized balance of that goodwill amounted to $213,000 of which $106,000 has been amortized during 1978 leaving a balance of $107,000 at December 31, 1978 to be amortized. The Company also entered into an agreement in 1973 to acquire on request from the minority shareholders, their minority shareholdings in Rio Indal, Inc., at a price to be based on the earnings of the three years ending December 31, 1977. The Company thought it prudent to provide annually an amount towards any goodwill which might arise on the exercise of these options. At December 31, 1977, the amount provided, after adjustment for foreign exchange, amounted to $2,000,000. During 1978 the options were exercised creating goodwill of $2,497,000 of which $2,000,000 was written off against the provision and $250,000 was amortized during the year leaving a balance of $247,000 at December 31, 1978. In aggregate, $356,000 of the goodwill arising from Rio Indal, Inc. has been written off in 1978 leaving a balance of $354,000 at December 31, 1978 to be amortized.

Goodwill resulting from acquisitions or agreements entered into subsequent to January 1, 1974 is being amortized over forty years. At December 31, 1977 such goodwill being amortized amounted to $2,241,000. Further purchases under such agreements gave rise to goodwill of $331,000 and goodwill arising on the acquisition of new subsidiaries in 1978 amounted to $16,942,000. During 1978, an amount of $373,000 was amortized, leaving a balance, after adjustment for foreign exchange, of $19,304,000 at December 31, 1978 to be amortized.

Total goodwill amortized in 1978 (excluding the amount of $2,000,000 charged against the provision detailed in paragraph two above) amounted to $729,000, comprising the $356,000 and $373,000 referred to in paragraphs two and three above respectively. Goodwill of $33,970,000 in the balance sheet at December 31, 1978 comprises the $14,312,000, $354,000 and $19,304,000 referred to in paragraphs one, two and three above respectively.

9. Deferred charges less amortization

	1978	1977
Preproduction costs	**$ 147,000**	$ 676,000
Debenture issue expenses	**341,000**	355,000
Patents and licences	**13,000**	3,000
	$ 501,000	$1,034,000

During the year, total expenditures capitalized in respect of deferred charges were $96,000 (1977 — $203,000) and amortization totalled $651,000 (1977 — $470,000).

10. Bank advances

Bank advances are secured by the pledge of accounts receivable and, in the parent company and certain subsidiaries, by inventories.

11. Long-term liabilities

	1978	1977
8½% Sinking Fund Debentures, Series A, secured by a pledge of certain assets of the Company and shares of certain subsidiaries, due on March 15, 1993 with annual repayments by way of sinking fund of $200,000 in 1979 and 1980, $300,000 in 1981 to 1984, $400,000 in 1985 to 1988 and $550,000 in 1989 to 1992	**$ 7,300,000**	$ 7,300,000
Prime plus 1% Series B Debentures, secured by a pledge of certain assets of the Company and shares of certain subsidiaries, repayable quarterly over 3 years, having commenced September 30, 1977	**2,667,000**	4,167,000
Mortgages maturing —		
within 5 years, 6% to 11¾%	**3,353,000**	1,505,000
within 5 - 10 years, 8%	**2,538,000**	422,000
after 10 years, 2% to 12½%	**9,729,000**	7,979,000
Prime plus 1% unsecured bank term loan repayable in monthly instalments of $42,857, having commenced June 1978	**3,300,000**	—
Prime times 1.05 (up to March 15, 1979, then times 1.12 up to March 15, 1982, then times 1.17) bank term loan, secured by a pledge of shares of certain U.S. subsidiaries, repayable in 20 equal quarterly instalments of U.S. $237,500, commencing March 15, 1979 with a final payment of U.S. $250,000	**5,925,000**	—
Prime times 1.15 (rate not to exceed 10%) bank term loan, repayable in instalments of U.S. $719,000 and U.S. $150,000 on December 31, 1979 and 1980 respectively, with interest payable quarterly	**1,030,000**	—
9.375% Note repayable in equal monthly instalments of U.S. $25,917 including interest, through November, 1987	**2,235,000**	—
8.8% Note payable as to interest only through 1979, thereafter repayable in 10 equal annual instalments of U.S. $250,000 plus interest	**2,962,000**	—

	1978	1977
The loan agreements with respect to the above two notes only includes specific stipulations regarding (a) unsecured short-term borrowings; (b) long-term borrowings in relation to shareholders' equity; (c) secured debt limitations; and (d) working capital and current ratio requirements.		
7% Notes payable secured by a pledge of shares of a U.S. subsidiary, repayable in instalments as follows: U.S. $1,700,000 on January 2, 1979; and four equal annual instalments of U.S. $2,942,500 commencing on January 2, 1980 to and including January 2, 1983	**15,962,000**	—
Other	**3,469,000**	6,595,000
Capital leases:		
Manufacturing plant lease payable in monthly instalments of U.S. $18,200 through June, 1994 at an interest rate of prime plus 1¾%, but not less than 6¾% nor more than 9%, determined each December 31. At the end of the lease term the lessee has the option to purchase for $1	**2,159,000**	—
Manufacturing plant and facilities lease payable in annual instalments of U.S. $100,000 in 1978 and U.S. $150,000 thereafter at an interest rate of 7% to 8%. Under certain conditions the Company has the option to purchase on payment of any arrears plus U.S. $20,000	**1,801,000**	—
Other capital leases	**621,000**	—
	$65,051,000	$27,968,000
Less: Portion due within one year	**8,309,000**	2,461,000
	$56,742,000	$25,507,000

Repayments of long-term liabilities over the next five years are as follows:

1979	**$ 8,309,000**
1980	**10,172,000**
1981	**7,229,000**
1982	**7,243,000**
1983	**7,294,000**

12. Capital stock

(a) Authorized

By supplementary letters patent dated March 7, 1978 the 50,000 unissued preferred shares of the par value of $10 each were cancelled and a new class of 2,000,000 preferred shares of the par value of $25 each, issuable in series, was authorized.

(b) Changes in capital stock

The following changes in the issued capital stock occurred during 1978:

	Number of Shares	Amount
(i) 6% PREFERRED SHARES		
December 31, 1977	108,334	$ 1,083,000
Redemptions: Note (1)	108,334	1,083,000
December 31, 1978	—	$ —
(ii) FLOATING RATE PREFERRED SHARES SERIES A		
Issued - March 1978: Note (2)	1,000,000	$25,000,000
December 31, 1978	1,000,000	$25,000,000
(iii) COMMON SHARES		
December 31, 1977	6,464,412	$26,906,000
Exercise of stock options	94,276	556,000
Treasury issue - December 1978	3,000,000	38,250,000
December 31, 1978	9,558,688	$65,712,000

Note (1): Redeemed at 103% of par value.

(2): On March 9, 1978 the Company sold 1,000,000 cumulative floating rate preferred shares Series A of the par value of $25 each to Canadian institutional investors for an aggregate of $25 million. These preferred shares, which do not have general voting rights, have a cumulative floating rate dividend equal to half of the Canadian bank prime rate plus 1½%. The shares are redeemable at the option of the Company at $26.25 per share prior to March 1, 1981 and thereafter at par. The shares are retractable at par, at the option of the holders, in 1988. In the event of a change in the income tax treatment of dividends, the dividend rate may be increased or these preferred shares may be redeemed by the Company. The holders have agreed to accept term promissory notes of the Company in the event of a redemption pursuant to this tax change provision.

(c) Stock options

At December 31, 1978 there were outstanding options to purchase 160,233 common shares (including 52,150 to senior officers some of whom are also directors of the Company) exercisable between $3.88 and $11.25 per share. These options expire at various times between 1979 and 1985.

13. Contingent liabilities and commitments

(a) The Company has agreed to acquire, on request from the minority shareholders of eleven subsidiaries, their shareholdings in these companies at prices based on the profits earned by these subsidiaries. In respect of six subsidiaries these rights were not yet exercisable at December 31, 1978 and hence the total potential cost cannot be determined. In two of these six subsidiaries the minority shareholders have the option to request the Company to purchase up to 10% of their holdings in each year from 1979 through 1983, at a fixed price. The maximum annual payments in respect of these two subsidiaries in each of the next three years is $1,118,000. For those subsidiaries on which rights may be exercised, the cost, based on profits to December 31, 1978 would be approximately $2,000,000. Of this amount it is expected that $52,000 will be paid in 1979.

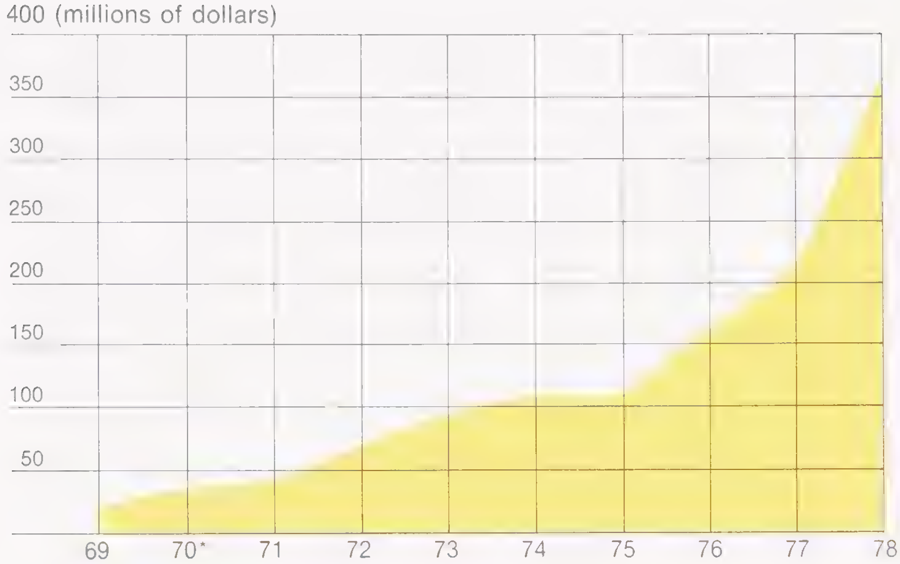
(b) Minimum annual rentals under contracts for lease of premises amount to $2,443,000 of which $1,586,000 relates to leases expiring after December 31, 1983.

(c) Capital commitments in respect of fixed asset additions amounted to approximately $5,444,000 at December 31, 1978.

(d) Indalex Limited, a wholly-owned subsidiary of the Company, has received federal and provincial income tax assessments totalling $1,867,000 including interest and penalties in respect of the calendar years 1971, 1972, 1973 and 1974. Certain of these assessments allege that additional income was earned in those years and the remainder allege that Indalex Limited failed to withhold tax on amounts paid or credited to a non-resident of Canada. These assessments are being resisted and no provision therefore has been made in the accounts of the Company. Indalex Limited expects to receive additional provincial income tax assessments amounting to approximately $100,000 in respect of the same years.

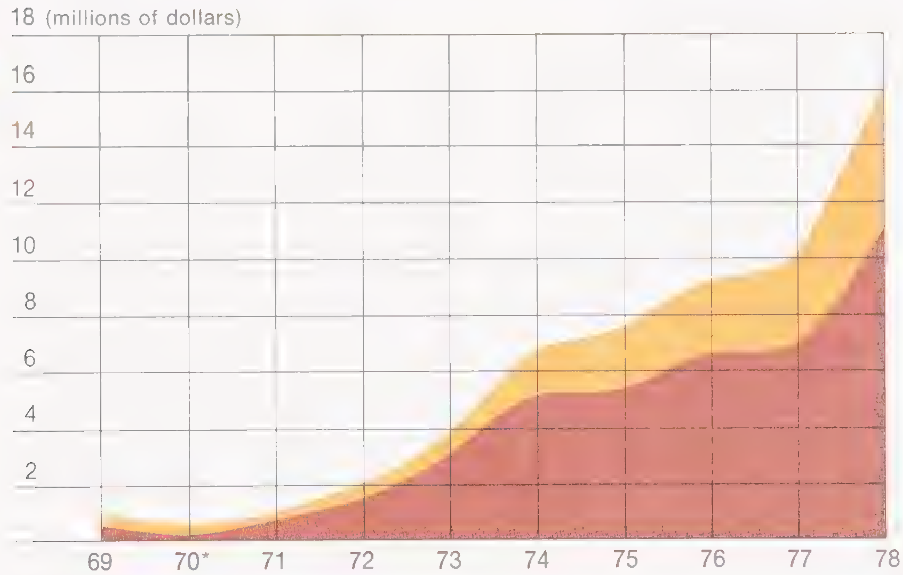
Financial charts

Manufacturing sales



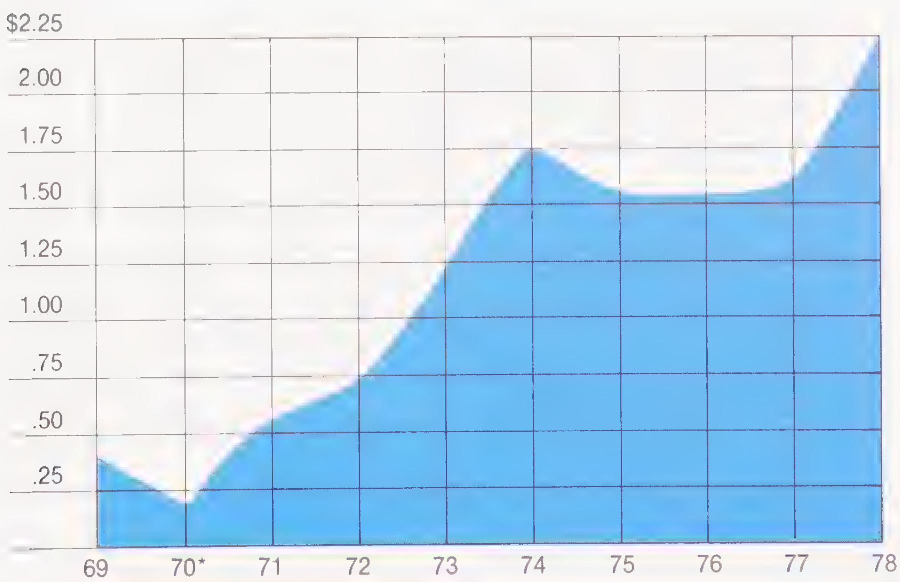
*14 months

Net earnings
Dividends
Retained



*14 months

Earnings per common share



*14 months

Indal Limited

Ten year financial summary

Sales - manufacturing operations
Sales - metal trading
Gross profit - manufacturing operations
Gross profit - metal trading
Earnings before income taxes
Net earnings for the period
Preferred dividends paid
Average number of common shares outstanding (5)
Earnings per common share (after preferred dividends) (5)
Dividend paid per common share (5)
Common dividends paid
Working capital
Current ratio
Fixed assets
Total assets
Asset turnover ratio
Common shareholders' equity
Equity per common share (5)
Purchase of fixed assets
Depreciation of fixed assets
Cash flow from operations

(1) The 1971 and 1970 figures have been adjusted to reflect the inclusion of Western Aluminum Products, a partnership in which the Company had a 50% interest.

(2) Certain immaterial amounts have been reclassified in presenting the 1969 net earnings.

(3) Five quarterly dividends were paid during the period.

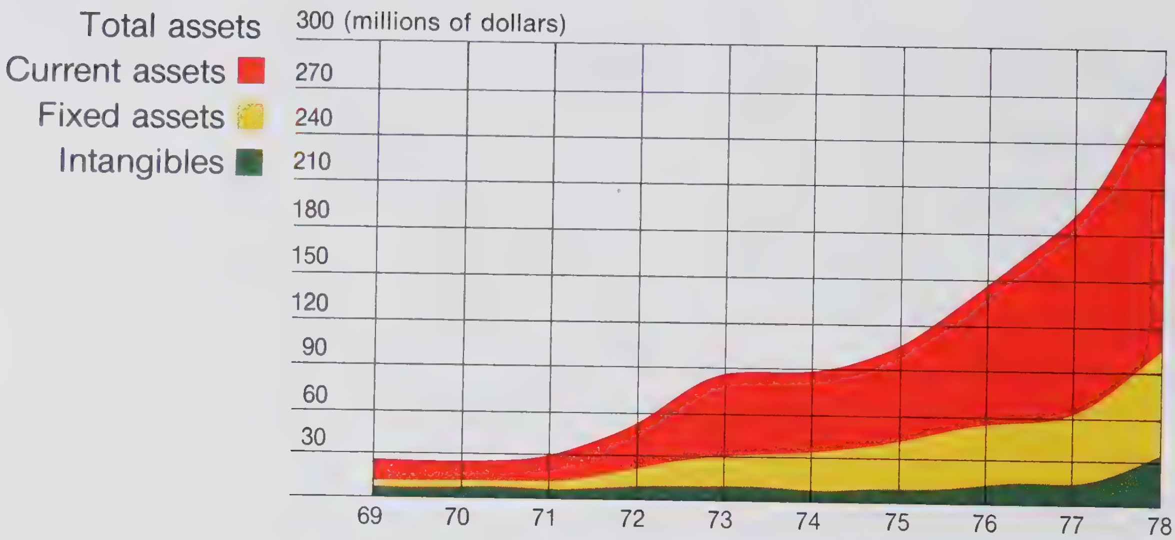
(4) 1976 figures have been restated to reflect a repurchase commitment for inventories of $8.982 million originally recorded by way of a note.

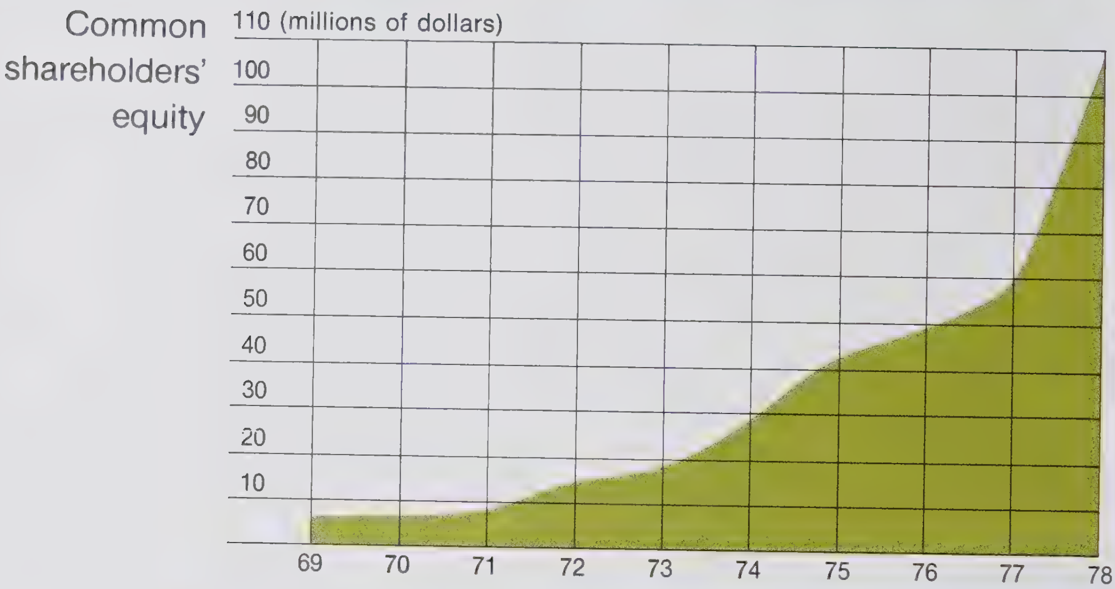
(5) The 1976 and previous figures have been adjusted to reflect a two for one stock split which was effected in 1977.

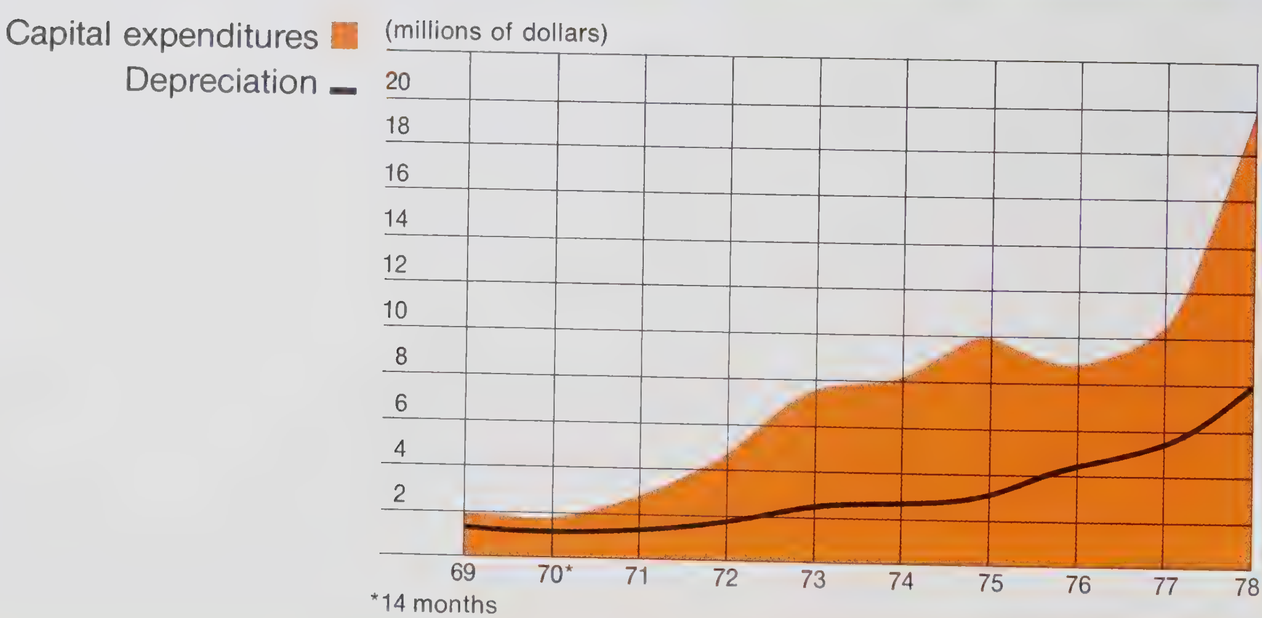
(in thousands of dollars)

	1978	1977	1976	1975	1974	1973	1972	1971	1970 (14 months)	1969
	363,328	212,150	158,691	109,317	111,824	89,904	70,689	43,122 (1)	34,910 (1)	26,077
	161,322	226,176	236,404	109,349	75,741	36,229	—	—	—	—
	92,545	55,031	42,993	31,775	30,859	21,819	16,214	10,142 (1)	7,829 (1)	5,853
	2,263	3,681	5,210	3,342	5,040	1,379	—	—	—	—
	30,388	19,279	19,193	15,118	15,519	8,625	4,927	2,875 (1)	1,317 (1)	1,891
	16,126	10,007	9,474	7,480	7,037	3,855	2,098	1,163	473	834 (2)
	1,101	68	72	77	83	87	93	98	129 (3)	109
	,664,146	6,226,159	6,060,116	4,809,244	3,975,534	3,126,630	2,770,632	1,911,346	1,902,092	1,834,254
	$ 2.25	$ 1.60	$ 1.55	$ 1.54	$ 1.75	$ 1.21	$ 0.73	$ 0.56	$ 0.19	$ 0.40
	55¾¢	49½¢	45⅞¢	45¢	38¾¢	21¼¢	15¢	10¢	12½¢ (3)	10¢
	3,640	3,066	2,782	2,187	1,594	661	410	191	237	178
	96,191	36,579	35,152	24,733	15,137	6,935	5,127	3,475	4,305	1,955
	2.2:1	1.4:1	1.5:1 (4)	1.6:1	1.4:1	1.1:1	1.3:1	1.3:1	1.6:1	1.2:1
	76,703	46,521	38,800	31,583	24,711	19,804	10,590	5,510	4,036	5,043
	285,335	191,587	154,785 (4)	112,762	87,380	86,599	44,606	27,874	21,919	21,011
	1.3	1.1	1.0 (4)	1.0	1.3	1.0	1.6	1.5	1.6	1.2
	107,557	58,300	49,279	42,280	29,497	18,473	14,715	7,496	6,607	6,486
	$ 11.25	$ 9.02	$ 8.09	$ 7.03	$ 6.82	$ 5.81	$ 4.79	$ 3.92	$ 3.47	$ 3.42
	20,200	10,638	8,885	10,036	8,035	7,892	4,350	2,582	1,331	1,941
	8,264	5,786	4,452	3,274	2,846	2,371	1,789	1,125	1,168	954
	28,473	18,919	18,175	13,543	12,543	7,884	4,327	2,348	1,238	1,735

Financial charts







Flames in natural gas furnace envelop aluminum billet at Toronto plant of Indalex Division. Furnace pre-heats and softens billet before it is fed into press and extruded with cross-section shaped to customer's specification by steel die.

Operating subsidiaries and divisions

CANADA

	% of equity attributable to the company	
Insulating glass units	100	**AIRLITE GLASS INSULATING LIMITED, Toronto** J. Shapiro, President
Aluminum prime windows and patio doors	100	**ALUMIPRIME Division, Toronto** H. Lazar, President
Architectural aluminum store fronts, entrances, window systems and curtain walls	100	**COMMERCIAL ALUMINUM Division, Toronto** B. R. Leaman, President
Architectural aluminum store fronts, entrances, window systems and curtain walls	100	**COMMERCIAL ALUMINUM (WESTERN) Division, Calgary** T. H. Rumsey, General Manager
Cold rollformed metal products	100	**CUSTOM ROLLFORMING COMPANY LIMITED, Toronto** G. Berdan, President
Zinc die cast products	100	**CUSTOM ZINC DIE CASTING LIMITED, Toronto** R. M. Dyon, President
Design engineering, structural products and helicopter hauldown and rapid securing systems	100	**DAF INDAL LTD., Mississauga** M. R. Maynard, President
Commercial and institutional windows and specialty architectural systems	100	**DOMINION BRONZE LIMITED, Winnipeg, Calgary and Edmonton** J. Adams, President
Cold rollformed steel and aluminum industrial and agricultural roofing and siding	100	**EASTLAND METALS LTD., Mississauga** C. H. Wilson, President
Automotive parts and steel containers	100	**FABRICATED STEEL PRODUCTS (WINDSOR) LIMITED, Windsor** A. W. Eansor, President
Automotive bumper recycling and industrial plating	100	**FAIRMONT PLATING (ALTA) LTD., Edmonton, Calgary, Regina and Saskatoon** **FAIRMONT PLATING (MAN) LTD., Winnipeg** E. S. Kynnersley, President
Storm and patio door hardware and aluminum home improvement products	100	**FASHION GRILLES Division of RAM Partitions Limited, Toronto** R. M. Dyon, President
Aluminum prime windows and patio doors	100	**HIALCO MFG. Division, Port Coquitlam, Kelowna and Nanaimo** P. Houweling, President
	100	**INDAL PRODUCTS LIMITED** J. C. Middlebro', President
Aluminum ladders		**LITE METALS Division, Mississauga**
Aluminum storm doors and windows		**MARITIME Division, Amherst**
Aluminum storm doors, windows and garden houses		**REBMEC Division, Toronto**
Aluminum extrusions, surface finishing and fabricated products	100	**INDALEX Division, Toronto, Montreal, Calgary and Port Coquitlam** W. J. MacDonald, President
Aluminum recycling and billet casting	100	**INDALLOY Division, Toronto** J. Blocha, President
Wood and vinyl windows	100	**McKNIGHT WINDOW INDUSTRIES LIMITED, Toronto and Ottawa** D. R. Williams, Vice-President and General Manager
Residential steel entrance doors and patio doors	70	**PEACHTREE DOORS CANADA LTD., Toronto** S. G. Abray, President
Demountable walls and office landscape partitions	100	**RAM PARTITIONS LIMITED, Toronto** A. W. Stokes, Vice-President and General Manager
Glass tempering and processing	85	**TEMPGLASS LIMITED, Toronto** I. R. Moore, President
Aluminum and wood prime windows, doors, insulating glass units and travel trailer components	100	**WESTERN ALUMINUM PRODUCTS, CALGARY Division, Brampton, Calgary, Kelowna, Lethbridge, Medicine Hat, Red Deer, Regina and Saskatoon** C. M. Kline, President

	% of equity attributable to the company	
Aluminum and wood prime windows, doors and insulating glass units	100	**WESTERN ALUMINUM PRODUCTS, WINNIPEG Division, Winnipeg and Thunder Bay** G. T. Newsham, President
Cold rollformed steel and aluminum industrial and agricultural roofing and siding, rainwater goods and grain bins	100	**WESTLAND METALS LTD., Richmond, Calgary, Edmonton and Saskatoon** B. G. Harrison, President
Box wood window units	100	**WESTWOOD WINDOWS Division, Airdrie** G. G. Orpe, President
Aluminum and wood prime windows, doors and insulating glass units	100	**WINDOWMASTER PRODUCTS Division, Edmonton and Prince George** G. G. Orpe, President

UNITED STATES

Aluminum prime windows and patio doors	60	**ALAMO ALUMINUM CORP., Santa Clara, CA** R. Hopper, President
Technology licencing and capital equipment marketing	87½	**ALUMINUM PROCESSES INCORPORATED, Cleveland, OH** C. C. Andrews, President
Aluminum patio and storm doors, and aluminum prime and storm windows	95	**BETTER-BILT ALUMINUM PRODUCTS CO., Smyrna, TN** L. M. Moffatt, President
Aluminum screen doors, weatherstripping, thresholds, storm doors and security doors	79	**EMPIRE METAL PRODUCTS CORPORATION, Los Angeles, CA and Columbus, OH** D. E. Stewart, President
Expanded aluminum metal products	90	**INDAL FABRICATORS INC., Louisville, KY** R. A. Powell, President
Wood cabinets for kitchens and bathrooms	100	**KABINART CORPORATION, Nashville, TN** G. Boudoucies, President
Aluminum extrusions and fabricated products	100	**MIDEAST ALUMINUM INDUSTRIES, INC., Dayton, NJ and Mountaintop, PA** R. B. Sowers, President
Zinc die cast products	72½	**NORTH AMERICAN DIE CASTING CORP., Fredericksburg, VA** S. H. Ruderfer, President
Residential steel entrance doors and patio doors	74	**PEACHTREE DOORS, INC., Atlanta, GA and St. Joseph, MO** J. R. Hewell, Jr., President
Aluminum replacement windows	100	**REPLACEMENT PRODUCTS INDUSTRIES CORPORATION, Philadelphia, PA** B. S. Wyner, President
Metal trading	100	**RIO INDAL, INC., Cleveland, OH** N. L. Butkin, President
Aluminum extrusions and fabricated products	100	**ROYAL ALUMINUM, INC., Los Angeles, CA** T. A. Rosko, President
Wood windows, patio doors and insulating glass units	74⁷⁄₁₀	**SEALRITE WINDOWS, INC., Lincoln, NE and Chicago, IL** P. Brown, President
Glass tempering and processing	70	**TEMPGLASS, INC., Toledo, OH** I. D. Fintel, President
Glass tempering and processing	95	**TEMPGLASS EASTERN, INC., Atlanta, GA** J. Mulvanerty, President
Glass tempering and processing	92½	**TEMPGLASS SOUTHERN, INC., Grand Prairie, TX** W. C. Metcalfe, President
Glass tempering and processing	70	**TEMPGLASS WESTERN, INC., Fremont, CA** R. B. Cobie, President
Aluminum, wood and other building products	100	**TENNESSEE BUILDING PRODUCTS, INC., Nashville, Knoxville and Chattanooga, TN** J. Fishel, President
Glazing contractor	100	**TENNESSEE GLASS COMPANY, Nashville, TN** E. Grace, President

Location of plants, warehouses and sales offices

58 Number of plants
21 Number of offices/warehouses

Printed in Canada